

# State Tax Shelter Using a Captive REIT

- ★ A corporation establishes a REIT subsidiary and transfers its real estate to the REIT.
- ★ The corporation deducts its rental payments to the REIT, but improperly claims a dividend received deduction for the income it receives from the REIT. Even though the REIT receives income as rent, the REIT pays no tax because of a dividend paid deduction. The corporation shelters income equal to its rental expenses it pays to its own subsidiary—but no tax is paid on that income by the subsidiary.

